

10-Nov-2022

Bakkt Holdings, Inc. (BKKT)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Bakkt's Third Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference call is being recorded.

I will now turn it over to Ann DeVries, Head of Investor Relations at Bakkt. Please go ahead.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

Good morning, and thank you for joining us for Bakkt's third quarter earnings call. Today's presentation, including the separate earnings call presentation that can be found at our Investor Relations website at www.investors.bakkt.com, will contain certain forward-looking statements about Bakkt.

These statements are based on the current expectations of the management of Bakkt and are subject to uncertainty and changes in circumstance, many of which are beyond Bakkt's control, which may cause actual results to differ materially from those expressed or implied in such forward-looking statements.

For a more complete discussion on forward-looking statements and the uncertainties related to Bakkt's business, please refer to its filings with the Securities and Exchange Commission, including the discussion of Bakkt's risk factors in its most recent annual report on Form 10-K and its subsequent quarterly report on Form 10-Q.

During today's presentation, in addition to discussing results that are calculated in accordance with generally accepted accounting principles, we will refer to certain non-GAAP financial measures. For more information on this, the basis of presentation for our financial results and our non-GAAP measures, please refer to our earnings release, which was filed this morning with the SEC.

Joining me on today's call are Gavin Michael, Chief Executive Officer; and Karen Alexander, Chief Financial Officer. After our prepared remarks, we will answer questions we received from our investors through the Say Technologies platform. After that, Gavin and Karen will be available to answer questions from the analyst community.

I'll now turn it over to Gavin.

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

Thank you, Ann. Good morning, everyone, and thanks for joining us. Our goal remains the same. We're working to connect the digital economy by enabling consumers, businesses and institutions to unlock value from digital assets. Within our core focus, our strong market position enables us to invest through the cycle, like with our acquisition of Apex Crypto, which we expect to be transformative for Bakkt and we'll discuss later in the call.

We recognize that there is still significant economic headwinds for consumers and businesses from inflation and rising interest rates to the continued volatility both in traditional markets and in crypto. Looking at the events in crypto this week, we can see that the shockwaves are continuing and the fallout may not be limited to the initial parties involved. We have no exposure to FTX or any of the impacted parties or tokens. We are focused on building for the long term in a sustainable way. We've always taken a mature and thoughtful approach to risk.

With this in mind, we're being intentional, strategic and disciplined with how we utilize capital. We will continue to invest in enhancing our core product offerings and activating with partners. But at the same time, we will be even more prudent in our cash usage and optimize the business by simplifying processes and driving productivity.

Now moving on to the Bakkt's platform. Our platform is unique and offers businesses scaled consumer experiences across crypto and loyalty. It is underpinned by our institutional-grade technology stack.

Our services span from buy, sell, hold crypto, significantly further scaled with the addition of Apex Crypto to our loyalty solutions which offer access to merchandise, travel and Apple products, fully customizable by our partners. We provide valuable experiences for our partners within these defined product areas. Our platform is very focused on doing these well, because we've seen that they resonate in the marketplace and are positioned to scale quickly.

We continue to drive simplification in our product suite and leaning into products that have significant consumer demand and a clear path to profitability. Not only are each of these offerings powerful individually, but there are also rich opportunities for crypto and loyalty to work in tandem, like with our Crypto Rewards.

As the narrative around crypto continues to develop, we believe it'll be increasingly viewed as more than just an investable asset and move to widespread utility across consumers, businesses and institutions. We're still very early in the stages of the kind of utility adoption that Bakkt is looking to drive.

Our complementary crypto and loyalty solutions position us for any market environment. Loyalty programs are extremely relevant in tough markets as consumers look to rewards programs to offset costs. We've seen this with consumer spending behaviors on our loyalty platforms. Businesses are looking for opportunities to offer more to their customers during this time.

So, let's dig in deeper into some of the things that we've been working on. I'm incredibly excited that we've entered into a definitive agreement to acquire Apex Crypto from Apex Fintech Solutions. Apex Crypto has more

than 30 crypto trading clients, including leading fintechs, and the addition of these clients to our already robust platform will enable us to scale faster, reach new client segments and offer advanced crypto solutions sooner to earn significant revenue and bolster our path to profitability.

We also continue to grow our organic business, building out our product road maps and working with our partners to co-market and activate in the market. With Fiserv, we're continuing to accelerate our sales and marketing initiatives and expand our relationship with their sales team to build pipeline across products. So, this means ongoing webinars, thought leadership content and other opportunities where we are jointly participating to educate their teams and their clients.

We continue to invest in Bakkt loyalty solutions and we've expanded our storefronts to provide customer choice across travel and merchandise. This includes expanded content options from a number of name-brand partners, including Shop Premium Outlets, to meet customer demand for more redemption opportunity.

We activated instant funding to enable quicker consumer flows into the Bakkt ecosystem. This update has already resulted in increased conversion and transaction rates. For example, we've seen new users are over 10 times more likely to link a debit card as a funding source versus a bank account, and new users that link a debit card are more than 2 times more likely to buy crypto versus users that link a bank account.

We're extremely excited by our acquisition of Apex Crypto. This is a unique asset that is complementary to the Bakkt platform. The acquisition significantly accelerates our crypto strategy, providing immediate revenue generation and opening the doors to meaningful new client verticals. This deal provides scale in differentiated client segments and meaningful transaction volume with more than 30 partners. It enables us to offer new and expanded crypto capabilities more quickly to our clients, as well as growing segments where we're not already present.

We also get to welcome talented individuals with expertise across crypto, engineering, technology and trading to further deepen our bench. This deal is transformational for our company. With the addition of Apex Crypto to our platform, we are poised to be a crypto provider of choice across industries for financial institutions, fintechs, merchants and loyalty programs. This adds significantly to our capabilities and leapfrogs our road maps to be able to offer advanced features to new and existing clients.

The structure of this deal is extremely financially attractive. As we've shared, the initial payment is \$55 million in cash with up to \$145 million in Bakkt stock and seller notes, all depending on the achievement of financial targets by the acquired business through to 2025. The structure of this deal is intentional. If the acquired business meets its financial targets and additional purchase price is paid, it's beneficial to Bakkt and our overall revenue picture. The deal is expected to be accretive and will have a significant impact on our crypto revenue upon close.

As we've said, we expect this transaction to bolster our path to profitability. So, let's look more closely at what that really means. Our acquisition of Apex Crypto will be accretive to EPS, free cash flow and our revenue growth rate. We expect the addition of Apex Crypto business to be accretive to adjusted EPS in the full year following deal close. We are targeting an operating margin expansion in 2023 of at least 20%. Excluding deal costs, we expect free cash flow of \$80 million through 2025 from the acquisition and associated restructuring initiatives.

We also expect meaningful cash savings in the range of \$20 million to \$25 million from this transaction through 2025, primarily driven by head count and technology efficiencies. Our revenue opportunities will only continue to grow as we expect to double the 30 active partnerships through 2024, leveraging the Apex pipeline. We're excited

by the significant financial benefits from the transaction in driving incremental revenue and growing our operating margin.

As I've shared, the structure of this deal maximizes the financial benefit to Bakkt and incentivizes Apex Fintech Solutions for ongoing involvement. Aside from the cash payment of \$55 million at closing, the purchase price includes contingent consideration of up to \$145 million of Bakkt stock and seller notes to Apex Fintech Solutions based on achieving financial targets that drive significant incremental revenue to Bakkt.

The transaction value of this deal is clearly linked to the financial performance of the Apex Crypto business. The contingent earn-out, gross profit growth targets are robust, with year-over-year growth targeted at more than 175% in 2023 and more than 50% in 2024. We believe these earn-out targets for Apex Crypto are appropriately aggressive and ensure that this transaction provides the right returns for our shareholders.

Apex Crypto must achieve these full year gross profit growth targets to receive the full amount of Bakkt stock issuance laid out in the deal terms. Gross profit growth below these targets would result in proportionately lower amounts of stock issuance or no issuance at all if below 25% of the earn-out. These growth targets were established to be accretive to EPS, and we feel confident that this deal will show its impact on Bakkt immediately upon closing.

Now let's go deeper on Apex Crypto's capabilities and how they will enhance our platform and accelerate our product road map. With the acquisition, we will offer more than 30 coins with partners having the ability to choose the coins offered to their customers. Along with seamless deposits and withdrawals with open loop functionality for Bitcoin, Bitcoin Cash and Litecoin, we will also be able to offer staking capabilities for a limited number of coins. Staking enables consumers to earn passive income from the crypto that they hold, a very attractive capability for many who are transacting in crypto today and a capability that we expect to become increasingly relevant going forward.

We will also be able to offer access to NFTs through an order management system that accepts payment in fiat currency. This removes the friction from how NFTs transact today and enables more widespread adoption and applicability to a much broader range of consumers. Apex Crypto comes from a heritage of deep trading expertise, and we're excited to harness their proprietary best bid/offer systems and limit order technology for our clients. And we will have access to additional liquidity providers, enabling deep market access and a more competitive pricing to customers.

These capabilities are attractive to new and existing partners and we'll be able to continually build upon this strong foundation and offer more features to extensive client verticals. These new capabilities greatly accelerate our product road map. By adding them to our platform, we can scale back on the investments we have been making here and streamline the resources that we need to achieve our goals.

Apex Crypto's platform is highly complementary to ours. Apex Crypto enhances our current buy/sell/hold solution with additional coins and more advanced order and trading. It significantly expands our crypto client base into a number of new and rapidly growing client verticals, such as fintech, app trading platforms and neobanks.

We will also be able to bring back strength to the clients Apex Crypto currently serves. From new customer experiences, crypto payments, royalty offerings and custody, we are positioned to continue scaling our joint capabilities to a broader universe of businesses pulling from each platform's strength where it makes the most sense and creating a more differentiated product offering that has scale and depth.

Apex Crypto provides an attractive addressable market. Apex Crypto already has approximately 5 million crypto-enabled accounts, and we expect to continue to add more volume to the platform with future growth potential for Bakkt's other products and services to deepen these customer relationships. Through Apex Fintech Solutions, we will jointly target more than 220 clients to grow future revenue together. Their network is another important growth vector going forward.

The customer demographic these fintechs are serving represents a huge opportunity. According to data.ai, over 50% of customers to top fintech firms are millennials or Gen Z, and according to Morning Consult Research, millennials and Gen Zs represent the most crypto ownership in the US, comprising 60% of the crypto space. This group of customers are more interested in crypto overall and trade much more frequently than other customer segments.

The fintechs and neobanks in this segment are also moving more quickly to offer crypto access to their customers. So, we expect to grow in this segment faster. This acquisition provides value to all stakeholders of Bakkt and Apex Crypto. The partners we've spoken with already identify this as an exciting new chapter. We'll be able to provide a broader product offering, speed-to-market of new features and a single B2B2C platform for crypto and more.

Consumers will get earlier access to new products and features, along with highly competitive pricing and more opportunities to engage in the crypto economy from one destination. For shareholders, this is immediately financially impactful, accretive to EPS, free cash flow and revenue growth, bolstering our path to profitability. It also enables us to focus the business to maximize the accretive nature of the deal, which includes the talented people we're bringing on. Karen will get into this more deeply, but we expect to implement a restructuring plan in the fourth quarter. In addition to the acquisition, we've made a lot of necessary investments in our platform in 2022, which enables us to simplify and focus on the core capabilities that we know are critical to our strategy. We're just so excited to welcome Apex Crypto team members with expertise across trading, technology and crypto to Bakkt. We have a strong alignment across our cultures, both passionate about innovation and delivery in crypto. There are so many elements of this deal that have natural synergy to the Bakkt platform and alignment to our business. I just can't wait to share more on the progress we'll make together.

So, let's move on to additional strategic highlights from our business. Going deeper on Global Payments, we're excited to be making progress on our multifaceted partnership to bring crypto access and utility to the Global Payments network. We're working with the teams across engineering, sales, marketing and product. Our integration work is complete for Crypto Connect and Crypto Rewards, which sets us up to collaborate on additional use cases. We've launched a pilot for Netspend employees to buy crypto through Netspend with our crypto capabilities. We are also working closely with TSYS on go-to-market for Crypto Rewards.

In Q3, we significantly expanded our sales presence, targeting key partner verticals supported through a refreshed brand, which brings our B2B2C strategy to life, positioning Bakkt as a supporter of partner experiences. We've been expanding marketing initiatives to build awareness and to generate more leads and we're already seeing strong traction with average monthly qualified leads, more than doubling since the beginning of this year. We continue to see interest in the market related to crypto and custody services, even with a slightly longer buying cycle. Our conversation in these channels are providing valuable insights into opportunities for crypto as a form of utility. The narrative for crypto is clearly shifting, and we can help our partners stay ahead of these emerging trends.

And with that, I'll pass it to our CFO, Karen Alexander to review our financial results for the quarter.

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

Thank you, Gavin and good morning, everyone. I will now walk you through the third quarter financial results. As a reminder, we use the term predecessor to represent the results of Bakkt Holdings LLC prior to October 15, 2021. These results exclude any results from VPC Impact Acquisition Holdings. Successor represents the results of Bakkt Holdings, Inc. from October 15, 2021 forward, which is the post-merger period. Combined, represents the combination of predecessor and successor for the applicable period. This is a non-GAAP figure.

Turning to slide 18, we have our third quarter 2022 financial results. We saw strong net revenue for the quarter of \$12.9 million, which increased by \$3.8 million or 41% compared to the third quarter of 2021, primarily driven by strong activity from loyalty redemptions. [ph] For most recent quarters (00:22:07), the key driver here is a rebound in travel as we have come out of the pandemic.

As previously disclosed, this quarter included a \$1.5 billion non-cash goodwill and intangible assets impairment charge. As a reminder, this charge was in accordance with Generally Accepted Accounting Principles and is a result of the decline in our market capitalization and the revenue impact of elongated timing for the expected crypto product activations. This charge is non-cash and does not have an impact on our future operations or affect our liquidity or cash flow from operating activities. Excluding this onetime charge, our operating expenses were \$60 million in the period which is up \$21 million or 54% year-over-year, primarily due to an increase in non-cash compensation and head count.

The net loss for the quarter was \$1.6 billion, which resulted in a basic and diluted net loss of \$6.11 per share at an average basic and diluted share base of 76.6 million shares. Net loss allocated to the non-controlling interest in the operating company was \$1.2 billion, leaving a \$468.1 million loss attributable to Bakkt Holdings Inc.

Our total share count as of October 31 was 264 million shares. ICE remains our largest shareholder with ownership of 66% of aggregate shares, which is consistent with their shareholding as of June 30, 2022.

On slide 19, we have our EBITDA and adjusted EBITDA for the third quarter of 2022. Adjusted EBITDA reflects adjustments for non-cash and acquisition-related items that impacted the period including the goodwill and intangible asset impairment charge. EBITDA and adjusted EBITDA for the quarter were losses of \$1.6 billion and \$30.7 million respectively. The increase in loss in adjusted EBITDA versus the prior year period was primarily due to increased investment in growing the company.

On slide 20, we show net revenue broken out between subscription and service revenue and transaction revenue. Total net revenue in the third quarter of 2022 was \$12.9 million, and increased 41% compared to the third quarter of 2021. The strong year-over-year revenue growth that we have seen in the most recent quarters is the result of an increase in enterprise customers and higher travel volumes through May to pre-pandemic 2019 levels as COVID-19 impacts have subsided. Last quarter, we mentioned the softening we were seeing in the travel loyalty redemption volumes as a result of supply constraints and high prices. We continue to observe the softening in the third quarter.

Turning to slide 21, we have total operating expense. Total expense for the third quarter, excluding the non-cash goodwill and intangible asset impairment charge was \$60.0 million, which was up 54% year-over-year. The year-over-year increase in expense was mainly driven by investments to ramp up our business and expense related to running a public company. Total compensation expense of \$37.8 million increased 70% compared to the third quarter of 2021 due to non-cash compensation charges related to issuance of restricted stock units, as well as

increased head count as we invested in the business to build our product road map and public company infrastructure. The quarter-over-quarter increase in compensation expense was due to increased head count related to technology and call center investments. We have always expected 2022 to be an investment year after receiving the funds from our de-SPAC transaction to grow our business. We invested in hiring and building our teams throughout 2022. We expect to limit future hiring and leverage the team we built, as well as the pending acquisition of Apex Crypto to further our road map in 2023.

Gavin mentioned earlier in the presentation that we are focused on simplifying our business and our acquisition of Apex Crypto supports this. In our efforts to simplify our business and given that we have completed most of our initial investments to build out our company, we will be implementing a restructuring plan in the fourth quarter. We think that this is especially prudent given the headwinds that we have seen this year in the macroeconomic environment. We believe this will help to ensure that we are well-positioned for any environment by ensuring that we are rightsized and have the appropriate resources in place. As a result, we expect to recognize a restructuring charge in the fourth quarter of 2022.

On slide 22, we have our key performance indicators. These KPIs look like the full breadth of how our capabilities are accessed across both partner and Bakkt experiences and across crypto and loyalty experiences. Transacting accounts across the Bakkt platform were 678,000 in the third quarter of 2022, up 21% year-over-year. Digital asset conversions are a dollar weighted measure and more directly aligned to revenue growth.

Volume of \$182 million for the quarter was up 73% year-over-year, which reflects the strong growth we saw in loyalty redemption, particularly travel. We expect this to increase materially in 2023 as we activate crypto partners we have announced as well as build new relationships. We saw an increase in travel volume this quarter compared to the third quarter of 2021, reflecting strong post-COVID demand for travel. While travel volume is higher year-over-year, we continue to see a softening of travel volume first observed in June. For instance, traveler preferences for a vacation home rental over hotels have impacted demand for hotels in the third quarter.

Our acquisition of Apex Crypto will have a significant impact on these metrics given their scale with over 5 million crypto-enabled accounts, 31 million total trades on their platform, and \$11 billion in notional value traded. We remain highly focused on maintaining a strong balance sheet, especially in light of the challenging macroeconomic conditions around us.

We ended the third quarter with \$273.7 million of available cash and other highly liquid assets, which we believe leaves us with significant liquidity to self-fund our road map and finance the cash component of the Apex Crypto transaction. As a result of the non-cash goodwill and intangible asset impairment charge we took this quarter, our total balance sheet declined to \$878.5 million.

I want to reiterate that the non-cash goodwill and intangible asset impairment charge that we took this quarter was due to Generally Accepted Accounting Principles given the macroeconomic environment and current market capitalization, and does not reflect any long-term deterioration of our underlying core business. We are excited about the fundamentals and future growth potential of our business, even more so now with the acquisition of Apex Crypto. In the third quarter, we used \$42.1 million of cash as we continued investing in our business to drive future growth. This quarter included \$7.8 million of capital expenditures as we continue to invest in our technology platform.

We also had a onetime cash payment of \$9.2 million related to migration to a new purchasing card facility, which wasn't reflected in our midyear guidance. In light of the challenging macroeconomic environment, we accelerated the move to the new facility to facilitate the benefit of increased interchange income, which resulted in a onetime

cash payout. We are expecting cash usage to decline in 2023 from 2022 levels due to increased revenue as we grow our business, coupled with expense reductions related to the completion of large dollar investments in 2022 and benefits from further focusing on our core business.

Next, let's move on to our expectations around outlook. For 2022, we expect to be at the low end of the revenue range that we've provided in Q2 earnings, which was \$57 million to \$62 million due to the elongated crypto decision cycles and prolonged disruptions to travel volumes that we talked about earlier. Next, we expect our cash usage for the year to fall within our previously disclosed range of \$135 million to \$140 million, excluding the onetime accelerated cash payment of \$9.2 million.

As we mentioned earlier, we will implement a restructuring plan as we look to further focus our business on our core solutions in the fourth quarter. As a result, we expect to take a restructuring charge in the fourth quarter. Given all the strategic updates that we provided on this call, I thought it would be helpful to summarize our preliminary view and the expected impact on our financials in 2023 and beyond. We expect our cash usage in 2023 to decline from 2022 levels, driven by the combined impact of increased revenue and expense reductions related to the completion of large dollar investments and benefits from the fourth quarter restructuring. We believe our keen focus on managing our cash usage is prudent, especially in light of the possibility of a prolonged, challenging macroeconomic environment.

Next, we expect material financial benefits from our acquisition of Apex Crypto. As Gavin mentioned earlier, we are targeting operating margin expansion in 2023 from Apex Crypto of at least 20%. We also expect the acquisition of Apex Crypto and our business restructuring to result in cumulative incremental free cash flow of approximately \$80 million through 2025.

I will now pass it back to Gavin for his closing remarks.

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

Thanks, Karen. As part of our relentless focus on execution, we'll be working diligently with key stakeholders, including our regulators, to complete the acquisition of Apex Crypto and integrate the business onto our platform expeditiously.

Our acquisition of Apex Crypto is transformational, positioning us to be the provider of choice for any financial institution, merchant or loyalty program with crypto and other digital assets. Apex Crypto bolsters our crypto product offering, enabling us to offer innovative new products and expand our client verticals, providing us with broader reach across the board. We are focused on sustainable, long-term growth. We remain vigilant given the macroeconomic environment, and we're focused on prudent expense control and maintaining a strong balance sheet.

We will take necessary actions such as the restructuring plan we will implement in 4Q to protect our company and its shareholders. We will remain highly disciplined with how we allocate our capital through the cycle. Our research indicates that crypto is here to stay. Even 60% of the crypto curious in our recent survey who don't own crypto see it as the next advancement in modern finance. It's clear crypto has a long runway ahead. We're in this for the long-term. And our capital allocation decisions reflect that mentality. We will continue to strive every day to provide long-term sustainable value and growth to our shareholders.

I'll now turn it over to Ann to manage Q&A.

Ann DeVries*Head-Investor Relations, Bakkt Holdings, Inc.*

Thanks, Gavin. Let's move over to questions from the investor community. Leading into our Q&A session, we'll start by answering the top questions from Say ranked by number of votes. Given the volume of questions we have seen, we'll look to skip those questions that were addressed in our presentation, particularly those around strategy and long-term vision, which Gavin touched upon earlier. We'll also group together questions that share common themes. After that, we'll turn to live questions from the analyst community.

QUESTION AND ANSWER SECTION**Ann DeVries***Head-Investor Relations, Bakkt Holdings, Inc.*

Our first question is from [ph] Rajeev S (00:34:47) who wants to know why is ICE selling Bakkt stocks and whether we are concerned about this. Karen, would you be able to opine on this?

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

Sure. I'd be happy to. ICE remains our largest shareholder with 66% ownership of our aggregate shares. Their shareholder ownership has remained consistent and we continue to have a very strong relationship with them. You may have noticed that ICE recognized a non-cash write down related to their ownership stake in Bakkt in the third quarter. ICE accounts for its investment in Bakkt as an equity method investment. Generally Accepted Accounting rules require evaluation of equity method investments for other contemporary impairment based on observable data such as market value. ICE's non-cash write down of their investment in Bakkt was triggered by our non-cash goodwill and intangible asset impairment charge during the third quarter.

Ann DeVries*Head-Investor Relations, Bakkt Holdings, Inc.*

Thanks for clarifying that, Karen. Our next question is from [ph] Jonathan D (00:35:44), who asks, as Bakkt continues to rapidly hire new personnel and acquire new office space, essentially taking the company from a small business to a large one, can management please elaborate on what is the company's goal with these new assets? Gavin, can you take this one, please?

Gavin Michael*President, Chief Executive Officer & Director, Bakkt Holdings, Inc.*

Yeah, sure. Well, thanks for the question. Let's step back for a minute. Our goal has always been to grow the company and build a scalable business that could be impactful in connecting the digital economy. That's why we pursued the de-SPAC process to become a public company and access the funds necessary to make investments to achieve this goal, including key talent to grow the business, a physical location for the teams to be co-located, and to drive in-person collaboration. Our B2B2C positioning and large multinational partners will help us achieve scale. And we're investing in a road map that supports continued growth. As Karen mentioned earlier, we used 2022 to invest significantly in the build out of the company, and we expect the pace of investment to decline in 2023. These investments support the creation of long-term value to our partners, to our customers, to our shareholders, and to our employees.

Ann DeVries*Head-Investor Relations, Bakkt Holdings, Inc.*

A

Thank you. Next [ph] Stanley C (00:37:10) asks, will Bakkt be announcing any new partnerships? How will the company handle the slow adoption phase? Gavin, can you take this one?

Gavin Michael*President, Chief Executive Officer & Director, Bakkt Holdings, Inc.*

A

Yes, I can take that one. We have a robust pipeline of potential clients that we're working on and we're making strong traction with those names. The B2B2C sales and marketing initiatives that I described earlier have been very impactful in helping to further develop our pipeline. Our recent acquisition of Apex Crypto brings over 30 fintech partnerships onto our platform and an extensive pipeline with over 220 fintech clients in the AFS ecosystem. That's one of the key aspects of this acquisition, the immediate scale and distribution that it brings to our platform. So, regarding the point on slow adoption, based on research studies we've conducted with consumers and conversations we're having with partners, strong interest in crypto remains. That said, given the current crypto environment, we do recognize that some companies are taking their time to determine their entry point into crypto whether it's product fit or timing. We work closely with our partners to help them make the right decision for their business. Additional regulatory clarity will also help drive further adoption and help businesses determine their entry point. One of Bakkt's founding principles is that crypto as an asset class will mature faster in an atmosphere that prioritizes regulation, compliance and security, which is why we've built those principles into our platform from day one.

Ann DeVries*Head-Investor Relations, Bakkt Holdings, Inc.*

A

Thank you. Next up, [ph] Shia G (00:38:58) asked, what does Bakkt plan to do now that crypto is fading? Is the company going to go under? Will they deal with changes and adapt to them? And if so, how do they plan to do this? Karen, can you take this one?

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

A

Sure. I can give you my take on this. As Gavin just mentioned, we don't believe that crypto is fading. Are we in the midst of a prolonged period of crypto headwinds? Yes, I agree with that. This week's events certainly haven't helped. But we see companies using this time to build their strategy and be opportunistic so that when market conditions improve, they are ready to capitalize on them. That said, we do our best to ensure that we have a strong balance sheet and enough liquidity to prepare for any environment. We have over \$273 million of available cash and other highly liquid assets on our balance sheet. This capital puts us in a position to sustain a prolonged, challenging macroeconomic environment, while self-funding our road map to achieve our growth targets.

Further, the diverse nature of our business allows us to lean into various aspects of our platform with partners, depending on what their needs and market opportunities are. We feel confident that with our platform capabilities, including the new ones that we are acquiring from Apex Crypto, we have the ability to be a trusted provider of crypto services through the cycle and can be flexible and nimble to adapt to an evolving landscape should the need arise.

Ann DeVries*Head-Investor Relations, Bakkt Holdings, Inc.*

A

Thanks, Karen. We have time for one last question from the Say platform. [ph] Dhruvi P (00:40:29) asks, how do you manage a downturn in crypto prices? Karen, I think this one is for you again.

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Yeah. I'm happy to take it. Downturn in crypto prices doesn't necessarily have a negative impact on us. Volatility in crypto prices, whether it's up or down, is generally good as it creates more interest in trading volume with customers. We make back-to-back trades to offset customer positions, so we hold very little on our balance sheet. As a result, we really don't have a material financial impact from declining crypto prices. And as we scale our crypto offerings with the addition of Apex Crypto and new partners coming online, we would expect to see growth in crypto even with some volatility as a revenue opportunity.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Great. And with that, I would now like to turn the call back over to the operator to open up the phone lines to take questions from the analyst community.

Operator: Certainly. [Operator Instructions] Our first question comes from the line of John Roy with Water Tower Research. John, your line is now open.

John M.A. Roy

Analyst, Water Tower Research LLC

Q

Thank you. So, Gavin, you were talking about the pilot with Global Payments. Can you give us some more color on that timing, how long it's supposed to last, where it might lead, et cetera? Any color would be helpful?

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

Yeah, sure. John, good morning. Thank you for the question. So, our focus with Global Payments has been across a couple of different initiatives. The pilot that we spoke about in the presentation is with Netspend allowing at the moment internal Netspend employees to be able to use the capability of a buy, sell, hold from their Netspend account into Bitcoin and show the promise of the platform that we've spoken about by embedding access to crypto assets alongside traditional fiat currencies. The pilot is due to run through the course of the next several months. While we understand what the reception is like, how the functionality works, and get ready to take it into product launch as we start to see the right demand in the broader marketplace.

John M.A. Roy

Analyst, Water Tower Research LLC

Q

Great. As a follow on, obviously, Apex is important and you're going to get a pipeline with them. Have you seen any new prospects come to you and say, hey, this Apex announcement sounds interesting or is that a little too early?

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

It's a little too early. At the moment, our focus is working on the closing of the transaction and making sure that we're planning for all of the integration synergies that we've spoken about in today's call. We're incredibly excited by the capabilities that it brings to our platform, the acceleration it brings in our roadmap and the access to the talent of Apex Crypto to continue to deepen our bench.

John M.A. Roy*Analyst, Water Tower Research LLC*

Great. Thanks so much.

Operator: Thank you for your question. Our next question comes from the line of Trevor Williams with Jefferies. Trevor, your line is now open.

Trevor Williams*Analyst, Jefferies LLC*

Great. Thanks, good morning. Gavin, a bigger picture question for you just on crypto more broadly, in light of what's happened this week with FTX. I know you guys have talked for a couple of quarters now just about decision-making timeframes with FIS that have started to get drawn out. But just curious kind of what you think the net impact on the ecosystem will be from the FTX fallout, whether that's industry structure, regulatory clarity, and then more broadly specific to that, just on demand from FIS on offering crypto. Just trying to get at how much you think this exacerbates what had already been kind of a softening demand backdrop. Thanks.

Gavin Michael*President, Chief Executive Officer & Director, Bakkt Holdings, Inc.*

Hey, good morning, Trevor. Thank you for the question. I think what we're seeing is our proposition to the market has always been that we're a compliance-first, regulated environment where we take great care to separate our custodial activities from our market trading activities. We really have said about setting up a set of structures that are all about being thoughtful to our approach to risk. We believe that there will be greater clarity around regulation. As we've said, we think that that will help accelerate people's entry into the space.

In terms of what it does more broadly, I think what it is it's showing that there are still use cases that are yet to be developed, moving away from straight investing, thinking of it as just simply an asset, as a store of value and moving into utility type use cases; whether that's changing the payments landscape in the way in which we think about streaming payments or micropayments, whether it's thinking about how we continue to drive new capability beyond straight trading into these embedded finance activities.

Trading will always be part of the story, but there is so much more. And I think as a result of what we've seen through the course of the last several days, it will continue to see us focus on those other pieces, how do we continue to drive the benefits of crypto more broadly than just simply looking at it as an investable asset.

Trevor Williams*Analyst, Jefferies LLC*

Understood. Thanks. And then, just as my follow-up, on the expectation for the cash burn to moderate next year, is there any help you can give us just on order of magnitude for how much it could slow from here? I know a number of moving pieces, especially with the dynamics in Q4. But just any help you could give us on that, just as we think about modeling for 2023, would be great? Thanks.

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

I can take that one. In terms of cash burn, as we mentioned earlier, 2022 was always meant to be a building year for us. So, we were ramping up our head count and building out the capabilities to be a public company. And we

think that has really plateaued with where we are as of the third quarter. So, at this point, where we think about cash burn coming into 2023, there's a couple of places that we're focused on. First would be on the revenue side, where we do expect further activations on the crypto side. And then, obviously, the acquisition of Apex Crypto is going to give us a revenue stream as well.

On the expense side, we're really looking at solidifying our head count and our expenses to take advantage of some of the synergies that we expect to get from Apex Crypto, as well as really capitalize in terms of the leverage that we think our model has. Now that we've built these capabilities, we think there's leverage in terms of the ongoing operation of the business. So, I think, in terms of magnitude, it's something that we would certainly give more color on at the appropriate time when we give 2023. But I think you're going to see drivers on both of those fronts, on both the revenue side and the expense side.

Trevor Williams

Analyst, Jefferies LLC

Q

Great. Thanks so much, guys.

Operator: Thank you for your question. Our next question comes from the line of Jeff Cantwell with Wells Fargo. Jeff, your line is now open.

Jeff Cantwell

Analyst, Wells Fargo Securities LLC

Q

Hey, thank you, and I appreciate you allowing me to join these calls. I wanted to follow up on a couple of questions that are being asked, regarding FTX and events this week. You've always been very thoughtful with perspective on the crypto industry and so forth. So, the question I think we're all going to have to unpack over the next several months is sort of from a regulatory perspective. And I wanted to get your thoughts on where the gaps are right now from a regulatory perspective, what you think Bakkt and its approach to crypto, why you think it's the right one, and where we should expect to see the regulatory environment change over time and what you're doing to sort of get in front of those developments? I would love to hear your thoughts on that. Thanks very much.

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

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Thanks, Jeff. Yeah, sure. Look, we've always welcomed a thoughtful approach to regulation. We work very closely with our regulators to help educate them on what we're doing and how we think about our products, from the introduction of our products to and services into the market. Obviously, we will continue to evolve those as we see the regulatory responses start to change. I think the other thing that is important here is that we've always taken a mature and thoughtful approach to risk, avoiding lending, republication, leverage illiquid positions. And I think that becomes important.

So, when you think about where and how the regulatory response may occur, it will be simply around making sure that there's a clear separation of where the consumer monies are kept. So, the custodial side of our business, making sure that that is well managed and be very, very separate from what's happening in other parts of any business that it contains leverage. And I think importantly, there'll be continued focus on disclosures, making sure that it's very clear that people understand how and where the risk is when they're making these sorts of decisions.

Our goal is to move the debate and the discussion onto utility. How do we start to use the infrastructure around the core business that we have built to continue to drive into rewards space, into using crypto as a payout mechanism, and really thinking about how we take the infrastructure and the technology that is being built around

what it is that we're doing for crypto and using that to enhance customer impact, working closely to bring these services into the market to start to fill unmet need. Some of that will be around payments. Some of that will be around the way we start to see the evolution of commerce. How do we unlock the power of these digital assets?

And so, I think while we see an approach from our point of view, which is being very thoughtful in the way we think about risk, we think about compliance, we welcome regulatory clarity, we'll continue to be nimble in the way we evolve. And we'll continue to start driving this discussion around that broader sense of utility.

Jeff Cantwell

Analyst, Wells Fargo Securities LLC

Q

Great. And then – appreciate all the color. And then, on Apex, just to follow up, and this is in regards to the slide 12, can you expand a little bit upon – I see the piece where you're talking about 5 million crypto-enabled accounts. Does that mean active users? I'm just trying to get a sense of whether that's a TAM for your – kind of like a TAM versus whether it's a current user base, or anything you can kind of give us to help us think through where your actives will be trending – transaction actives will be trending as this comes on board? Appreciate that as well.

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

I could take that one. The 5 million enabled accounts are accounts that are effectively registered to be able to transact. So, I would think about that – it's kind of like a subset of the TAM. So, your total TAM is every customer that the partner has, of which a subset of them, in this case the 5 million, have set up – have signed up to be able to trade crypto and then you would expect a percentage of accounts trading to really drive revenue.

Jeff Cantwell

Analyst, Wells Fargo Securities LLC

Q

Got you. Thanks very much.

Operator: Thank you for your question. There are currently no more questions registered. [Operator Instructions] There are no more questions waiting at this time. So, I will pass the call back to our management team for closing remarks. Thank you.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

All right. Thanks, everyone, for attending our earnings call this morning. We look forward to connecting with you again soon. Have a good day.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect your line.

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